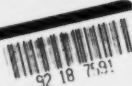


92-2277
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q



0 55056
Q-35961
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 1992

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-17231

AUTOMOBILE PROTECTION CORPORATION - APCO
(Exact name of registrant as specified in its charter)

Georgia 58-1502432
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)

15 Dunwoody Park Drive • Suite 100
Atlanta, Georgia 30338
(Address of principal executive offices) (Zip Code)

(404) 394-7070
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 31, 1992
Common stock, \$.001 par value per share	5,168,000

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AUTOMOBILE PROTECTION CORPORATION - APCO

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AUTOMOBILE PROTECTION CORPORATION - APCO **CONSOLIDATED BALANCE SHEET**

<u>ASSETS</u>	May 31, <u>1992</u> (Unaudited)	August 31, <u>1991</u>
Current Assets:		
Cash and cash equivalents	\$2,069,714	\$1,750,240
Marketable securities	846,835	1,760,459
Accounts receivable, net	209,597	571,331
Advances and notes receivable from officers and employees	130,778	154,530
Inventory	261,132	266,712
Income tax refund receivable	457,595	
Prepaid expenses and other assets	<u>21,107</u>	<u>97,819</u>
Total current assets	3,996,758	4,601,091
Property and equipment, net of accumulated depreciation of \$497,960 and \$370,457	913,698	919,279
Goodwill, net of accumulated amortization of \$172,111 and \$134,786	325,561	362,886
Computer software, net of accumulated amortization of \$149,964 and \$108,333	66,943	108,574
Other intangible assets, net of accumulated amortization of \$350,754 and \$286,319	78,246	142,681
Other assets	<u>132,050</u>	<u>46,051</u>
	<u>\$5,513,256</u>	<u>\$6,180,562</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY:</u>		
Current liabilities:		
Payable to managing general agents and insurers for service contracts	\$1,603,038	\$1,168,356
Accounts payable and accrued expenses	122,800	70,562
Commissions payable	98,042	255,234
Accrued liabilities	7,402	64,953
Income taxes payable		<u>127,295</u>
Total current liabilities	<u>1,831,282</u>	<u>1,686,400</u>
Shareholders' equity:		
Convertible redeemable preferred stock	5,875	5,875
Common Stock - \$.001 par value per share; 40,000,000 authorized, 5,168,000 issued and outstanding	5,168	5,168
Additional paid-in capital	3,429,717	3,429,717
Retained earnings	<u>241,214</u>	<u>1,053,402</u>
Total shareholders' equity	<u>3,681,974</u>	<u>4,494,162</u>
	<u>\$5,513,256</u>	<u>\$6,180,562</u>

(The accompanying notes are an integral part of these consolidated financial statements.)

AUTOMOBILE PROTECTION CORPORATION - APCO
CONSOLIDATED STATEMENT OF OPERATIONS

	<u>Three Months Ended May 31,</u>	
	<u>1992</u>	<u>1991</u>
	(Unaudited)	(Unaudited)
Revenues	\$3,664,367	\$5,402,692
Cost of sales	<u>2,941,791</u>	<u>4,425,455</u>
	<u>722,576</u>	<u>977,237</u>
Expenses:		
Selling, general and administrative	681,738	642,031
Salaries and wages	424,641	554,727
Interest, dividend and other income	<u>(36,720)</u>	<u>(95,609)</u>
	<u>1,069,659</u>	<u>1,101,149</u>
Loss before income taxes	(347,083)	(123,912)
Benefit for income taxes	<u>(115,000)</u>	<u>(55,240)</u>
Net loss	<u>\$ (232,083)</u>	<u>\$ (68,672)</u>
Net loss per common share	<u>\$ (.04)</u>	<u>\$ (.01)</u>
Weighted average number of common shares outstanding during the period	<u>5,168,000</u>	<u>5,168,000</u>

(The accompanying notes are an integral part of
these consolidated financial statements.)

AUTOMOBILE PROTECTION CORPORATION - APCO
CONSOLIDATED STATEMENT OF OPERATIONS

	<u>Nine Months Ended May 31,</u>	
	<u>1992</u>	<u>1991</u>
	(Unaudited)	(Unaudited)
Revenues	\$10,283,008	\$17,755,133
Cost of sales	<u>8,418,786</u>	<u>14,072,207</u>
	<u>1,864,222</u>	<u>3,682,926</u>
Expenses:		
Selling, general and administrative	1,866,225	1,807,075
Salaries and wages	1,411,627	1,633,126
Interest, dividend and other income	<u>(132,442)</u>	<u>(220,497)</u>
	<u>3,145,410</u>	<u>3,219,704</u>
Income (loss) before income taxes	(1,281,188)	463,222
Provision (benefit) for income taxes	<u>(469,000)</u>	<u>162,000</u>
Net income (loss)	<u>\$ (812,188)</u>	<u>\$ 301,222</u>
Net income (loss) per common share	<u>\$ (.16)</u>	<u>\$.06</u>
Weighted average number of common shares outstanding during the period	<u>5,168,000</u>	<u>5,181,897</u>

(The accompanying notes are an integral part of
these consolidated financial statements.)

AUTOMOBILE PROTECTION CORPORATION - APCO
CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>Nine Months Ended May 31,</u>	
	<u>1992</u>	<u>1991</u>
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net income (loss)	\$ (812,188)	\$ 301,222
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	243,894	257,837
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	361,734	(63,114)
Decrease (increase) in advances and notes receivables from officers and employees	23,752	(63,140)
Decrease (increase) in inventory	5,580	(83,797)
Increase in income tax refund receivable	(457,595)	
Decrease in prepaid expenses and other assets	17,713	15,501
Increase (decrease) in payable to managing general agents and insurers for service contracts	434,682	(134,995)
Increase in accounts payable	52,238	35,376
Decrease in commissions payable	(157,192)	(47,630)
Decrease in accrued liabilities	(57,551)	(37,004)
Decrease in income taxes payable	(127,295)	(2,010)
Total adjustments	<u>339,960</u>	<u>(122,976)</u>
Net cash (used in) provided by operating activities	<u>(472,228)</u>	<u>178,246</u>
Cash flows from investing activities:		
Sales (purchases) of marketable securities, net	913,624	(271,493)
Purchases of property and equipment	<u>(121,922)</u>	<u>(167,416)</u>
Net cash provided by (used in) investing activities	<u>791,702</u>	<u>(438,909)</u>
Net increase (decrease) in cash	319,474	(260,663)
Cash and cash equivalents at beginning of period	<u>1,750,240</u>	<u>1,908,383</u>
Cash and cash equivalents at end of period	<u>\$2,069,714</u>	<u>\$1,647,720</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	<u>\$ 116,000</u>	<u>\$ 154,000</u>

(The accompanying notes are an integral part of these consolidated financial statements.)

AUTOMOBILE PROTECTION CORPORATION - APCO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the periods indicated.

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. Certain information and footnote disclosures normally included in financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's 1991 Annual Report on Form 10-K.

Because of seasonal and other factors, the results of operation for the three month and nine month periods ended May 31, 1992 are not necessarily indicative of the results of operations to be expected for the fiscal year ending August 31, 1992.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of AUTOMOBILE PROTECTION CORPORATION - APCO and its wholly-owned subsidiaries, APCO Finance and Insurance Systems, Inc., Aftermarket Profit Plus, Inc., W.I.N. Systems, Inc. and The Aegis Group, Inc.. All significant intercompany transactions and balances have been eliminated in consolidation.

Revenues from the sales of extended vehicle service contracts and warranty programs sold by dealers are recognized when the service contract or warranty sold by the dealer is approved and accepted by the Company.

Revenues from sales of software are recognized when the software is shipped to the customer. The Company offers maintenance contracts on software products which are recognized as revenue on a pro rata basis over the term of the maintenance contract.

Marketable securities are stated at the lower of cost or market, determined as of the balance sheet date. Realized gains and losses on sales of securities during the periods presented were not significant.

Payable to managing general agents and insurers represents the unremitted amount of premiums and administrative fees due to managing general agents and insurers for service contracts and warranty programs sold by dealers which are administered by the Company. Such amount is recognized as a part of cost of sales when the service contract or warranty is processed and accepted by the Company.

Goodwill, Computer Software and Intangible Assets - Goodwill, which represents the excess of the purchase price over the fair value of the acquired assets, is being amortized on a straight-line basis over a ten year period. Computer software represents the estimated fair value of the computer software which was acquired by the Company. The Company amortizes software over its estimated useful life of five years on a straight-line basis. Intangible assets consist of the value of purchased customer accounts, trademarks and other similar assets which are being amortized over a five year period on a straight-line basis.

Net income per common share is based upon the weighted average number of shares outstanding during each period. On December 15, 1990, the Company acquired and immediately retired 36,000 shares of its common stock from a former employee as consideration for certain outstanding employee advances. The retirement of such shares is included in the weighted average number of shares outstanding for each of the periods presented.

Reclassifications - Certain prior period amounts were reclassified for comparative purposes.

AUTOMOBILE PROTECTION CORPORATION - APCO AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors which have affected the Company's financial position and operations during the periods included in the accompanying consolidated financial statements. The discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and related notes appearing elsewhere herein.

Results of Operations

Three Months Ended May 31, 1992 ("the 1992 Period") Compared to the Three Months Ended May 31, 1991 ("the 1991 Period")

Revenues decreased in the 1992 Period by \$1,738,325 or 32% to \$3,664,367 compared revenues of \$5,402,692 in the 1991 Period. The decrease in revenues during the third quarter of Fiscal 1992 primarily was the result of two factors.

The first factor, and the most important, was the decision of the Company in August 1991 to transition Company administered dealer vehicle service contracts with Underwriters at Lloyd's of London ("Lloyds"). The transition began in August 1991 for those dealers covered by the Marketing Arrangement discussed below and was completed in May 1992. As of June 1, 1992 all of the vehicle service contracts of which are currently administered by the Company are now being underwritten by Lloyds. The delay in having the last group of dealers converted to the Lloyds program was primarily due to time required to comply with certain state regulatory requirements and obtain lender approvals.

The transition from previous insurance underwriters to Lloyds took longer than expected and required a greater amount of corporate resources than originally anticipated. The Company encountered development and start-up delays with the Lloyd's program, and there were unexpected complexities in meeting various state regulatory requirements and obtaining certain lender approvals due to the unique nature of the Lloyd's program; all of these elements increased the time and cost of transition and resulted in higher expenses associated with the Lloyds program. Moreover, because of the transition itself and delays, the marketing efforts of the Company were severely disrupted during the first, second and third quarters of Fiscal 1992 while a large number of dealers took a "wait and see" position before agreeing to use the Company to administer their vehicle service contracts under the Company's Lloyds program. As a result of all this, the Company experienced a significant decline in revenues and a reduction in the number of dealers using the services of the Company.

During the third quarter of the Fiscal 1992, marketing efforts for the Company's services and products began to return to normal levels and the Company began once again to service some of the dealers which stopped employing the Company during the transition period. Additionally, during the third quarter of Fiscal 1992, the Company was successful in attracting new dealers and independent agents to market its services and products through its agreements with Lloyds such that the number of dealers serviced by the Company began to return to the level before the transition period. However, the Company is unable to predict when, or if, that dealer level will be achieved and when, or if, revenues will return to the prior levels.

The second factor, which has been affecting the Company for the last couple of fiscal years and is expected to continue to affect the Company in the future, is that the automotive

industry is in the midst of one of the worst periods of automobile and truck sales in recent history. In general, since dealers have been selling fewer vehicles, there have been fewer opportunities for dealers to employ the services and sell the products of the Company. Management believes that the U.S. market for automobiles and trucks will continue to remain weak throughout 1992 and is unable to predict what impact the continuing weakness will have on the Company's results of operations and financial condition in the future.

In fiscal 1990 the Company entered into a marketing arrangement (the "Marketing Arrangement") with one of the nation's largest consulting and marketing organizations of services and products to dealers (the "Marketing Company"). Under the terms of the Marketing Arrangement, the Marketing Company acts as an agent for the Company in soliciting individual dealerships to enter into Dealer Agreements with the Company. Revenues arising from such agreements accounted for approximately 35% and 43% of the Company's total revenues in the 1992 Period and the 1991 Period, respectively. The decline in revenues from the Marketing Arrangement is primarily a result of the Company's inability to obtain both (i) proper regulatory approvals in certain states, and (ii) lender approvals, prior to the transition of business to Lloyd's. Revenues under the Marketing Arrangement were also adversely affected by the overall weakness of the economy and the decline in automobile sales in the 1992 Period as well as certain corporate changes made at the Marketing Company.

The Company also has an agreement with a distributor of foreign vehicles (the "Distributor Agreement") pursuant to which the distributor assists the Company in marketing its vehicle service contract programs to its affiliated dealers. As a result, the Company has entered into individual dealer agreements with many of the distributor's independent dealers. Revenues arising from service contracts written by dealers represented by the distributor accounted for approximately 1% and 7% of the Company's revenues during the 1992 Period 1991 Period, respectively. The Distributor Agreement was terminated on May 1, 1992, at which time the Company began marketing its vehicle service contract programs directly to the distributor's independent dealers. To date, the Company has been successful in retaining many of the distributor's independent dealers.

Cost of sales, which consists of selling commissions paid to the Company's independent agents and the cost of obtaining insurance to cover the Company's and its dealers' obligations under the vehicle service contract, as a percentage of revenues decreased slightly to 80% in the 1992 Period from 82% in the 1991 Period. The decrease is primarily the result of the Company's ability to pass on the increased costs associated with the Company's decision to change insurance underwriters and fluctuations in both the mix in the type of vehicle service contracts sold during the periods and the make and model of the related vehicles.

Selling, general and administrative expenses increased by \$49,707 to \$681,738 in the 1992 Period from \$642,031 in the 1991 Period.

Salaries and wages decreased by \$130,086 to \$424,641 in the 1992 Period from \$554,727 in the 1991 Period. The decrease is primarily due to changes in compensation plans for certain personnel whereby a larger portion of certain employees' compensation is now derived from performance and incentive based compensation. In addition, the Company was able to eliminate several positions as a result of reduced volume.

Interest, dividend and other income decreased by \$58,889 to \$36,720. The Company maintains a policy of investing all funds on hand in excess of its immediate requirements in interest bearing accounts and other securities. The decrease in interest, dividend and other income is primarily the result of a decline in interest rates in the 1992 Period as compared to the 1991 Period and a reduction in funds on hand available for investment due to the use of cash to fund current operating deficits.

The Company recorded a net loss of \$232,083 (\$.04 per share) in the 1992 Period compared to a net loss of \$68,672 (\$.01 per share) in the 1991 Period. As discussed above, the 1992 Period was adversely affected by the Company's decision to change insurance underwriters and continued weak automobile sales.

Nine Months Ended May 31, 1992 ("the 1992 Period") Compared to the Nine Months Ended May 31, 1991 ("the 1991 Period")

Revenues decreased in the 1992 Period by \$7,472,125 or 42% to \$10,283,008 compared to revenues of \$17,755,133 in the 1991 Period. Revenues arising from the Marketing Agreement accounted for approximately 33% and 45% of the Company's total revenues in the 1992 Period and the 1991 Period, respectively. Revenues arising from service contracts written by dealers represented by the Distributor accounted for 6% and 9% of the Company's revenues during the 1992 Period and the 1991 Period, respectively. In general, the decline in revenues for the 1992 Period from those of the 1991 Period are attributable to the same reasons discussed above for the comparison of the three month periods ended May 31, 1992 and 1991.

Cost of sales, as a percentage of revenues increased to 82% in the 1992 Period from 79% in the 1991 Period. The increase is primarily the result of increased costs associated with the Company's decision to change insurance underwriters and fluctuations in the mix of vehicle service contracts sold during the periods.

Selling, general and administrative expenses increased by \$59,150 to \$1,866,625 in the 1992 Period from \$1,807,075 in the 1991 Period.

Salaries and wages decreased by \$221,499 to \$1,411,627 in the 1992 Period from \$1,633,126 in the 1991 Period as a result of changes in compensation plans and a reduction in personnel.

Interest, dividend and other income decreased by \$88,055 to \$132,442. The decrease in interest, dividend and other income is primarily the result of a decline in interest rates in the 1992 Period as compared to the 1991 Period and a reduction in funds on hand available for investment due to the use of cash to fund current operating deficits.

The Company recorded a net loss of \$812,188 (\$.16 per share) in the 1992 Period compared to net income of \$301,222 (\$.06 per share) in the 1991 Period. As discussed above, the 1992 Period was adversely affected by weak automobile sales and the Company's decision to change insurance underwriters.

Liquidity and Capital Resources

The Company generally funds its capital requirements with internally generated funds. However, as a result of losses incurred in the nine month period ended May 31, 1992 the Company used cash assets of \$472,228 during the nine month period ended May 31, 1992, to fund operating activities. The Company anticipates that it will continue to operate at a deficit cash flow through at least the end of June, 1992. Such operating deficits will be funded through the use of working capital, principally the liquidation of marketable securities and use of available cash. As a result of a cost containment program enacted on April 1, 1992 and recent successes of our marketing the Lloyd's programs, the Company anticipates that its fourth quarter cash flow deficit, if any, will not be as great as that experienced in the current quarter.

The Company believes that its working capital and anticipated levels of internally generated funds will be sufficient to fund its financial requirements for at least the next twelve

months. This estimate is based on the Company's current level of operations and certain assumptions relating to the Company's business and planned growth. In the event that the Company should find that its current resources combined with its ability to internally generate funds is insufficient to satisfy its future capital needs, the Company will require additional financing from outside sources.

At May 31, 1992, the Company had working capital of \$2,165,476 and no long-term debt or capitalized lease obligations. During the nine month period ended May 31, 1992, working capital decreased by \$749,215 over that as of August 31, 1991. The decrease in working capital is primarily attributable to the Company's net loss of \$812,188 recorded in the nine month period ended May 31, 1992.

II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

None.

(b) Reports on Form 8-K:

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

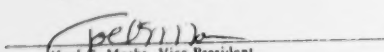
AUTOMOBILE PROTECTION CORPORATION - APCO

Date: July 14, 1992



(Martin J. Blank, Secretary)
(Duly Authorized Officer)

Date: July 14, 1992



(Joel E. Marks, Vice President,
Principal Financial and
Accounting Officer)